Credit Union Central of Canada

Submission to the House of Commons Standing Committee on Finance

Pre-Budget Consultations

August 12, 2011
Ottawa, Ontario

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Credit Union Central of Canada is the national trade association for its member organizations and through them 379 Canadian credit unions that collectively hold $131 billion in assets. Canadian Central is focusing its recommendations on policies that meet the Committee's policy objectives by strengthening the ability of credit unions to support small and medium-sized enterprises (SMEs) and agricultural firms, two sectors that have played an important role in Canada's economic recovery. Additionally, Canadian Central extends its support of the federal government's Red Tape Reduction Commission, and looks forward to the Commission's recommendations, which are expected early next year, for addressing regulatory irritants.

Recommendation 1: Ease SME/Farm Succession Planning: Canadian Central recommends that the federal government index its small business lifetime capital gains exemption, currently $750,000, to the rate of inflation, to ensure that its value does not erode over time. This recommendation is in line with Canadian Federation of Independent Business (CFIB) research showing that the largest barrier to succession planning is the cost of financing the transfer or sale of a business. This is particularly important in light of the fact that two-thirds of all independent business owners plan to exit or transfer control of their business in the next 10 years.

Recommendation 2: Make Permanent the EI Hiring Credit: In Budget 2011, the federal government introduced a temporary one-year employment insurance credit worth up to $1,000 for small businesses whose total EI premiums were at, or below, $10,000 in 2010. The measure was designed to offset an increase in 2011 EI premiums and encourage hiring by small businesses. According to Budget 2011, 525,000 employers are eligible for the tax credit which is expected to reduce small business costs by $165 million. Canadian Central joins the CFIB in recommending that this tax credit be made permanent given the importance of the SME sector to Canada's economic recovery, planned employment insurance increases and ongoing job training costs.

Recommendation 3: Support a Co-operative Investment Plan: Canadian Central joins the Canadian Co-operative Association in recommending that the federal government introduce a federal tax credit (the "Co-operative Investment Plan") for members and employees of co-operatives who invest their own money in producer and employee-owned co-operatives. The Finance Committee supported this recommendation in its 2009 pre-budgetary consultation report and it has been a top priority of the Canadian Federation of Agriculture because of the strong co-operative tradition in that sector.

On behalf of the Canadian credit union system, Canadian Central appreciates the opportunity to provide its recommendations to the Committee. It is our belief that our recommendations, combined with the government's plans for red tape reduction, will facilitate job creation and enable both credit unions and their partners in the SME, agricultural and co-operative sectors to contribute further to Canada's economic growth.

INTRODUCTION

Despite ongoing risks to the economic recovery,[1] Canada appears to be on a solid economic footing. Unlike other G-7 countries, Canada has regained all the jobs and real output lost during the recession[2] and is now expected to grow at an average rate of 2.7% in real terms (after inflation) through to 2015,[3] when the federal government also predicts its budget balance will return to surplus.

Credit Union Central of Canada (Canadian Central) is the national trade association for its member organizations and through them 379 Canadian credit unions. Canadian Central is focusing its recommendations on policies that meet the Committee's policy objectives by strengthening the ability of credit unions to support small and medium-sized enterprises (SMEs) and agricultural firms, two sectors that have played an important role in Canada's economic recovery.

Credit unions are full service, co-operative financial institutions that are owned by their member/customers. Canada's 379 credit unions operate a branch network with over 1,700 locations.[4] These branches serve more than five million members and directly employ 21,000 people. Combined, these credit unions hold more than $131 billion in assets, ranking them just below National Bank of Canada, one of the "Big 6" national banks.[5] Credit unions operate branches in more than 380 Canadian communities where they are the only bricks-and-mortar financial institution. This proximity to community translates into community giving: in 2009, credit unions contributed more than $37 million to their communities, equal to 5% of their pre-tax revenue.

These ties to community also create a natural affinity between credit unions and SMEs which, as Budget 2011 notes, are "a key part of Canada's economy."[6] According to the Canadian Federation of Independent Business (CFIB), SMEs are responsible for 60% of all employment in Canada. Moreover, SMEs shed far fewer jobs than larger firms during the 2008-2009 recession.[7] The credit union system is proud to have been a part of the SME sector's success. In 2008, the last year for which reliable data are available, the credit union sector accounted for more than 17% of all loans authorizations under $500,000, a frequently-used threshold for defining the SME lending market. This share is more than three times larger than the credit union system's overall weight in the financial services sector as measured by its share of domestic assets (4.6% in 2010).

[1] According to the Bank of Canada's July 2011 *Monetary Policy Report*, the three main risks are (1) the ongoing debt crisis in Europe; (2) the effects of a strong Canadian dollar on exports; and (3) potential weakness in Canadian household spending.

[2] Philip Cross, "How did the 2008-2010 recession and recovery compare with previous cycles?," Statistics Canada, *Canadian Economic Observer*, January 2011.

[3] Government of Canada, *Budget Plan 2011* (June 6th), p. 42.

[4] In Quebec, the co-operative financial sector is the Desjardins' system of *caisses populaires*.

[5] As of April 30, 2011, National Bank of Canada had $155 billion in assets.

[6] *Budget Plan 2011* (June 6th), p. 61.

[7] Canadian Federation of Independent Business (CFIB), "Supporting SMEs Creates Jobs," available at: http://www.cfib-fcei.ca/cfib-documents/5474.pdf.

Credit unions also have deep roots in the agricultural and agri-food sector, an important driver of Canada's economic recovery. Recent data from Statistics Canada show that food manufacturing is now the country's largest industry by employment and sales,[8] ahead of sectors like transportation and manufacturing. At the farm level, realized net income[9] increased by 46% in 2010 to $4.5 billion, with the increased profitability due to a decline in operating costs tied to, among other things, low financing costs.[10] Credit unions have played an important role in supporting the agricultural sector. Despite a competitive lending market, credit unions have increased their share of the agricultural lending market by almost 25% since 1999 to 11.3%.[11]

POLICY RECOMMENDATIONS

Canadian Central's recommendations have been prepared in consultation with its members and mindful of the Committee's policy objectives. Our recommendations are low cost, easy-to-implement, and can help promote the economic recovery.

Recommendation 1 – Ease SME/Farm Succession Planning: Research by the CFIB suggests that two-thirds of all independent business owners plan to exit or transfer control of their business in the next 10 years.[12] Of these, some 52% lack a formal succession plan. CFIB research also suggests that the largest barrier to succession planning is the cost of financing the transfer or sale of a business.

While the federal government's small business lifetime capital gains exemption (LCGE), currently $750,000, is an important tool for overcoming this barrier, more can and should be done given the looming retirement challenge and the sector's importance to the Canadian economy. Following the CFIB, Canadian Central therefore recommends that the federal government index the LCGE to inflation so that its value does not erode over time.

Canadian Central is also aware that Agriculture and Agri-food Canada is consulting with stakeholders on mechanisms to assist in farm succession. To that end, Canadian Central is supportive of federal government initiatives that facilitate access to farm management training and business skills development for young farmers. On the other hand, Canadian Central recommends that the federal government exercise caution when considering policies that seek to address farm succession issues through policies that would promote further debt on the farm. Such policies include programs to "term out" short term debt, expand the availability of interest-only facilities or use Farm Credit Canada as an easy-access

[8] Statistics Canada, "Monthly Survey of Manufacturing," *The Daily*, July 15, 2011, Table 2, available at: http://www.statcan.gc.ca/daily-quotidien/110715/t110715a2-eng.htm.

[9] Realized net income is defined as the difference between a farmer's cash receipts and operating expenses, minus depreciation plus income in kind

[10] Statistics Canada, *Net Farm Income: Agricultural Economic Statistics*, May 2011, Catalogue No. 20-010-X, available at: http://www.statcan.gc.ca/pub/21-010-x/21-010-x2011001-eng.pdf.

[11] Credit Union Central of Canada and Statistics Canada, *Farm Debt Outstanding: Agricultural Economic Statistics*, Publication No. 21-014X.

[12] CFIB, "From Recovery to Growth: Helping Small Businesses Spur Economic Growth," p. 9, January 2011.

creditor. In the long run, such policies merely drive up debt levels, reduce real returns, drive up the price of quota and agricultural assets thus making it difficult for younger farms to enter, or stay in, the business.

Recommendation 2 – Make Permanent the EI Hiring Credit: In Budget 2011, the federal government introduced a temporary one-year employment insurance credit ("Hiring Credit for Small Business") worth up to $1,000 for small businesses whose total EI premiums were at, or below, $10,000 in 2010. The federal government said the measure was designed to offset an increase in 2011 employment insurance premiums and encourage more hiring by small businesses. According to the 2011 Budget, some 525,000 employers are eligible for the EI credit which is expected to reduce small business payroll costs by about $165 million.

Canadian Central is joining with the Canadian Federation of Independent Business in recommending that this credit be made permanent given uncertainty over Canada's economic recovery, the importance of the SME sector to the recovery, planned employment insurance premium increases,[13] and ongoing job training costs.

Recommendation 3 – Support a Co-operative Investment Plan: While it is easy to think of SMEs and farmers as sole-proprietor businesses or partnerships, many SMEs and agricultural producers are member-owned co-operatives.[14] In rural areas in particular, co-operatives are a potential solution to the challenges of SME/agricultural succession planning given rural depopulation.

For these reasons, and in recognition that the federal government and the United Nations have designated 2012 as the International Year of the Co-operative,[15] Canadian Central is joining with the Canadian Co-operatives Association (CCA) in recommending that the federal government introduce a federal tax credit for co-op members and employees ("the co-operative investment plan or CIP)" who invest their own money in producer (e.g., agriculture, fishery, forestry) and employee-owned co-operatives. The House of Commons Standing Committee on Finance supported this recommendation in its 2009 pre-budgetary consultation report and it has long been a top policy priority of the Canadian Federation of Agriculture (CFA) because of the strong co-operative tradition in that sector[16] and the potential for co-operatives to address farm succession challenges.

[13] Employment insurance premiums for employers will increase by 10 cents per $100 of insurable earnings in 2012 to $2.63 (employers pay 1.4 times the employee EI premium, which will be $1.88 in 2012). The federal government is currently reviewing the the EI rate setting mechanisms to address a large operating deficit which, absent change, will require "steady increases " in premiums for the EI Operating Account to break even over time. For additional details, see "Backgrounder on EI Rate Increase Limit," available at: http://www.fin.gc.ca/n10/data/10-088_1-eng.asp.

[14] Well-known examples include Home Hardware, Gay Lea Foods, and Mountain Equipment Co-op.

[15] The IYC website address is: http://www.canada2012.coop/

[16] According to the CFA, there are more than 1,300 agricultural co-operatives, employing 36,000 people, generating over $19 billion/year in revenue and channelling some $1.6 billion producer re-investment in the industry and rural communities. See: http://www.cfa-fca.ca/media-centre/news-releases/2008/farmers-urge-government-invest-agriculture-economy.

The proposed federal CIP is expected to generate $130 million per year in new investments and would cost an estimated $32 million in foregone tax revenue.[17] These estimates are based on experience with a similar tax credit in Quebec, where the program has helped generate more than $500 million of investments in eligible co-operatives since 1985. In 2010 alone, more than 6,400 individual Quebecers made tax-deductible investments in 216 Quebec co-ops, raising $27.4 million. About 49 per cent of the plan's beneficiaries were agricultural co-operatives.

CONCLUSION

While not explicitly addressed elsewhere in our submission, we acknowledge the Committee's request for ideas on areas where federal spending could be reduced. To that end, Canadian Central supports the work of the federal government's Red Tape Reduction Commission, which is expected to issue its recommendations for addressing regulatory irritants later this year or early next. For example, the credit union system is concerned about compliance costs related to complex federal rules around monitoring and reporting on suspected money laundering activities. While the system supports these rules, there is concern about their efficiency and effectiveness, especially for smaller organizations. According to the CFIB, a concerted effort to reduce red tape could save the SME sector some $5 to $10 billion per year,[18] with some part of these savings flowing back to the federal government in the form of higher tax revenue which, combined with savings from reduced staffing needs, would help the federal government achieve its fiscal targets.

In conclusion, Canadian Central is grateful for this opportunity to share its views with the Committee. We believe our recommendations, combined with the government's plans for red tape reduction, represent an important step in supporting the economic and job creation power of credit unions and their partners in the SME, agricultural and co-operative sectors.

[17] CCA, "The Co-operative Investment Plan: Examining the Impact of the CIP in Québec and Exploring the Potential for a Canada-Wide CIP," available at: http://www.coopscanada.coop/public_html/assets/firefly/files/files/CIP_Report_ENGLISH_FINAL.pdf

[18] CFIB, "From Recovery to Growth: Helping Small Businesses Spur Economic Growth," p. 5, January 2011.